

**PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: October 9, 2001**

REGULAR X CONSENT EFFECTIVE DATE October 10, 2001

DATE: October 2, 2001

TO: Phil Nyegaard through Lee Sparling and Jack Breen

FROM: Lynn Kittilson

SUBJECT: Portland General Electric, Advice No. 01-18
Requests Approval to Implement Energy Conservation Measures in Multi-Family Dwellings in Targeted Geographic Areas

SUMMARY RECOMMENDATION:

Staff recommends that the Commission suspend Portland General Electric Company's Advice No. 01-18.

DISCUSSION:

Portland General Electric (PGE or company) submitted Advice No. 01-18 on September 10, 2001. The purpose of the filing is to implement a new program that would directly install energy efficiency measures in multi-family dwellings in targeted geographic areas under a new Schedule 224, Multi-Family Direct Installation Program. The program is proposed to go into effect on October 10, 2001. PGE filed the tariff sheets describing the program under ORS 757.205.

Program Description

PGE's filing proposes to implement a new energy efficiency program that would provide for the installation of specified energy efficiency measures and appliances free of charge to targeted multi-family dwellings in its service territory. The free measures include ceiling and floor insulation; infiltration measures around windows and doors (gaskets, caulking and weatherstripping); lighting in living and common areas (both compact fluorescent light (CFL) bulbs and hard-wired CFL fixtures); water heating (low flow showerheads, aerators, pipe and tank wraps, temperature setback); set-back thermostats; tenant education information and kits, tenant meetings, and neighborhood fairs. In addition, the program would provide rebates to property owners or operators on the installation of energy efficient windows and commercial grade clothes washers. The

measures that get installed would be based on the recommendations of an energy evaluation provided by a PGE representative, subject to agreement by the property owner or operator. The program is proposed to terminate on March 1, 2002, which is the end date for PGE to recover energy efficiency program costs through rates.

PGE's goal is to install energy efficiency measures in 8,000 multi-family units by February 28, 2002, resulting in an estimated 1.58 average megawatts (MWA) of energy savings at a cost to the company of \$4.9 million. PGE's filing states that the company will form "an Advisory Group from local housing and community development organizations to identify select areas of opportunity for targeting these services. Target area selection criteria will be determined through consultation with the Advisory Group using demographic and housing information." The criteria for targeting potential multi-family participants were not included in the filing. PGE plans to contract with outside energy efficiency providers to install the program measures. PGE would perform inspections of the contractors' work.

PGE's workpapers include a cost-effectiveness analysis that shows that the program proposal is cost-effective based on the cost and savings assumptions included in the filing. The filing also states that a program evaluation would be conducted beginning a year after the installations are completed.

Discussion

With the exception of the proposed new rebate on commercial grade clothes washers, PGE already provides incentives to its residential customers on the same measures proposed in the filing under its existing Schedule 226, Residential Weatherization Program, and Schedule 219, Energy-Efficient Equipment and Information Program. The Commission recently approved PGE's proposals in Advice Nos. 01-14 and 01-15 to expand the energy efficiency incentives and measures available to all residential space-heating customers under Schedule 226 and to all residential customers under Schedule 219. Advice 01-14 increased the rebate level on weatherization measures from 25 percent to 35 percent (43.75 percent through December 31, 2001); increased the cap on rebate levels from \$350 to \$1,250; added incentives on two levels of energy-efficient windows; and added direct installation of minor measures at no cost to the customer during the home energy audit. Advice 01-15 added incentives on several new measures to PGE's Schedule 219 Incentive List; added two home energy survey options to be completed via the Internet or U.S. mail; and offered residential customers a free kit of minor measures if they complete one of the home energy survey options.

In general, energy efficiency programs and incentive levels on measures are available to all qualifying customers within a defined residential, commercial, or industrial class or

sector. The utilities have provided higher levels of incentives or alternative incentive designs within a particular sector when the participation rates of a group of customers within the sector are lower than average. For example, the Schedule 226 weatherization program is available to all residential electric space-heating customers (single-family, multi-family, and manufactured home). PGE and PacifiCorp provide higher weatherization incentives to owners of qualifying low-income housing within the residential class, because penetration rates for those customers have been significantly lower than for conventional-income customers. In this case, the utilities provide 50 percent of the weatherization costs (with matching subsidies from federal and other sources) rather than the 25 to 35 percent available to other residential customers.

Staff's primary concern with PGE's filing is that it does not provide evidence that the higher level of utility subsidy proposed in the Schedule 224 program is warranted in the multi-family conventional-income sector. PGE's *Penetration and Saturation Study of 2000 Residential Retrofit Energy Efficiency Programs* (June 2001) shows that the company weatherized 1,397 multi-family conventional-income homes in 2000 achieving a penetration rate of 4.0 percent for the year and total sector saturation of 91 percent.¹ Multi-family penetration rates have ranged from 2 to 10 percent per year over the period 1993 through 2000. PGE's report also shows the company weatherized only 130 single-family conventional-income homes in 2000, achieving a penetration rate of 0.4 percent for the year and total saturation of 55 percent. Penetration rates in the single-family sector dropped from the 2 percent level achieved each year from 1993 through 1996 to the 0.5 percent level achieved each year beginning in 1997.

In response to one of staff's data requests on the filing, PGE provided estimates of 2001 costs and savings for each of its energy efficiency programs. The company forecasts achieving 0.17 MWa by year-end in the multi-family sector with the Schedule 226 program at a cost of \$1.6 million. PGE projects achieving 0.08 MWa through its Schedule 226 weatherization program in the single-family sector during 2001 at a cost of \$900,000.

The point in providing this data is to demonstrate that PGE's current Schedule 226 weatherization programs, which provide the same incentive levels to single-family and multi-family conventional-income customers have resulted in greater participation in the multi-family sector than in single-family homes. This evidence runs counter to PGE's assertion in one of its data responses:

¹ "Penetration is defined as the quotient of the number of homes participating in a given year divided by the number of homes in the eligible population for the same year. Saturation is defined as the percentage of the eligible population that has cumulatively participated up through a given year." (PGE's *Penetration and Saturation Study of 2000 Residential Retrofit Energy Efficiency Programs*, page 2)

[T]he unique economics of the multi-family customer segment was an important rationale to provide free installation of weatherization and other measures. Unlike single-family dwellings where a homeowner benefits from their energy efficiency investments through lower energy costs as well as higher property values, an apartment dweller receives no such benefit. Our customers who rent bear the responsibility for their energy bills, but do not own the structures where they live, so have no interest in permanent improvements. Many cost-effective measures have paybacks exceeding one or two years and cannot be moved if a tenant leaves. Property owners, on the other hand, gain little from energy efficiency improvements since they delegate responsibility for energy bills to their tenants. As property owners, their primary goal is cost minimization to optimize their cash flow. Analysts who have examined this phenomenon have characterized this problem as a typical 'market failure' where normal economic incentives and behavior do not apply due to the institutional barriers and limits.

The rationale PGE provides to support its proposed 100 percent subsidy of "targeted" multi-family residences would also apply to single-family rental homes. However, actual performance of PGE's weatherization program based on its own annual studies shows that participation by the multi-family sector has been consistently and significantly higher than by the single-family sector. The evidence actually supports higher single-family incentives than multi-family.

PGE's filing states that the proposed program is "extremely cost-effective." Due to the short review time on the filing, staff has not had a chance to review all of the assumptions included in the company's cost-effectiveness analysis. However, we are very skeptical that the company will be able to "directly install measures in 8,000 units" in less than five months and, therefore, we question the savings assumptions that determine the results. Those participation rates would be unprecedented. Direct install programs in the residential sector have always been more cost-effective than programs that provide lower incentives because participation rates and measure installation rates are higher resulting in higher savings. However, program costs spread to non-participating customers are significantly higher for direct install programs, because they subsidize all of the costs of the measure, installation, and program administration.

The only new measure that is proposed in PGE's filing is a \$300 rebate on commercial grade clothes washers. The filing does not provide the rationale for limiting the availability of the incentive to the "targeted" Schedule 224 multi-family participants. Staff believes that, if the incentive is reasonable, it should be available to all multi-family dwellings and perhaps to other customer groups where commercial washers are used.

Adding the rebate to the Schedule 219 Incentive List would provide more non-discriminatory access to the proposed incentive.

In addition, any tariff should provide the eligibility requirements for customer participation. PGE's filing states that only customers in certain geographic areas will be eligible, but the company has not established the geographic areas in the tariff, nor has it specified the criteria it would use to select the areas. The tariff should include the criteria for targeting program participation, and the filing should support the basis for the preferential treatment.

STAFF RECOMMENDATIONS:

Staff believes that PGE has not provided sufficient basis for approving a five-month, \$4.9 million direct installation program that provides free installation of measures only to targeted multi-family dwellings, especially given the recent expansion of measures and incentives approved for all residential customers in the company's existing energy efficiency programs. In addition, the tariff should include the criteria that will be used to determine customer eligibility. I recommend that the Commission suspend PGE's proposed Schedule 224, Multi-Family Direct Installation Program, submitted in Advice No. 01-18, which is proposed to go into effect on October 10, 2001. The Commission can suspend a tariff filing for further investigation under the provisions of ORS 757.215.